the Level 3 Network are significant," Crowe said. "In addition, since the technology we utilize to provide modem service is also VoIP capable, we expect this investment to benefit our VoIP services."

Free Cash Flow
Primarily as a result of higher network expenses as outlined above, as well as an increase in projected capital spending to accommodate growth in the transport and infrastructure and IP businesses, the company is updating its projections for 2004 Consolidated Free Cash Flow.

"We expect full year Consolidated Free Cash Flow to be negative $200 million to $250 million versus negative $180 million to $200 million," said Crowe. "As a result of various VoIP and data contracts we are pursuing or have won, we expect to fund additional capital expenditures this year. In addition, as previously mentioned, we are incurring additional network expense and capital expenditures associated with the migration of Allegiance, KMC, and ICG traffic to our network. Both of these actions described above are expected to yield cash flow benefits in future years."

Third Quarter 2004

Metric ($ in millions)	Third Quarter Projections
Communications Revenue	$400-$420
Consolidated Adjusted OIBDA	**$100-$120**
Capital Expenditures	$85

"We expect communications revenue to increase in the third quarter primarily as a result of a smaller than expected decline in managed modem revenue and an increase in reciprocal compensation and settlement and termination revenue," said Patel.

Consolidated Adjusted OIBDA is expected to increase to $100 million to $120 million in the third quarter primarily as a result of higher communications revenue from reciprocal compensation and termination and settlement revenue. In addition, network expenses associated with the ICG acquisition and the integration of Allegiance and KMC are expected to decline in the third quarter.

Communications Adjusted OIBDA margin for the third quarter is expected to be in the mid-20 percent range, as previously projected.

Capital expenditures are expected to increase to approximately $85 million in the third quarter as the company continues investing in previously announced service initiatives and network build-out related to previously awarded contracts.

Summary
"Our market share gains during the second quarter in our service offerings and our initial successes with our new services give me confidence that our competitive advantages are being recognized by our customers and within the industry," said Crowe.

Conference Call Information
Level 3 will hold a conference call to discuss the company's second quarter results at 10:00 a.m. Eastern Time today. To join the call, please dial 612-326-1012. A live broadcast of the call can also be heard on Level 3's Web site at www.Level3.com. An audio replay of the call will be accessible on the company's Web site or by dialing 320-365-3844; access code 736357.

Statement of Operations
Balance Sheets
Consolidated Cash Flow
View Schedule to Reconcile to non-GAAP Financial Metrics

About Level 3 Communications
Level 3 (Nasdaq:LVLT) is an international communications and information services company. The company operates one of the largest Internet backbones in the world, is one of the largest providers of wholesale dial-up service to ISPs in North America and is the primary provider of Internet connectivity for millions of broadband subscribers, through its cable and DSL partners. The company offers a wide range of communications services over its 23,000-mile broadband fiber optic network including Internet Protocol (IP) services, broadband transport and infrastructure services, colocation services, and patented Softswitch managed modem and voice services. Its Web address is www.Level3.com.

The company offers information services through its subsidiaries, Software Spectrum and (i)Structure. For additional information, visit their respective Web sites at www.softwarespectrum.com and www.i-structure.com.

Forward Looking Statement

Some of the statements made by Level 3 in this press release are forward-looking in nature. Actual results may differ materially from those projected in forward-looking statements. Level 3 believes that its primary risk factors include, but are not limited to: changes in the overall economy relating to, among other things, the September 11 attacks and subsequent events, the challenges of integration, substantial capital requirements; development of effective internal processes and systems; the ability to attract and retain high quality employees; technology; the number and size of competitors in its markets; law and regulatory policy; and the mix of products and services offered in the company's target markets. Additional information concerning these and other important factors can be found within Level 3's filings with the Securities and Exchange Commission. Statements in this release should be evaluated in light of these important factors.

McLeodUSA

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2004

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period to

Commission file number 0-20763

McLEODUSA INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	**42-1407240**
(State of Incorporation)	(IRS Employer Identification No.)
McLeodUSA Technology Park **6400 C Street SW** **P.O. Box 3177** **Cedar Rapids, Iowa** (Address of principal executive office)	**52406-3177** (Zip Code)

319-364-0000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

The number of shares outstanding of each class of the issuer's common stock as of July 30, 2004:

Common Stock Class A: ($0.01 par value)	179,333,323 shares
Common Stock Class B: ($0.01 par value)	78,203,135 shares
Common Stock Class C: ($0.01 par value)	35,546,879 shares

McLEODUSA INCORPORATED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Three months ended June 30, 2004	Three months ended June 30, 2003
Revenues	$ 191.9	$ 222.6
Operating expenses:		
Cost of service (exclusive of depreciation and amortization shown separately below)	105.3	128.1
Selling, general and administrative	68.5	73.5
Depreciation and amortization	88.4	85.1
Restructuring adjustment	(0.2)	—
Total operating expenses	262.0	286.7
Operating loss	(70.1)	(64.1)
Nonoperating expense:		
Interest expense, net of amounts capitalized	(11.6)	(8.3)
Other expense	(0.5)	(0.4)
Total nonoperating expense	(12.1)	(8.7)
Net loss	(82.2)	(72.8)
Preferred stock dividend	(0.8)	(1.2)
Net loss applicable to common shares	$ (83.0)	$ (74.0)
Basic and diluted loss per common share	$ (0.28)	$ (0.27)
Weighted average common shares outstanding	292.2	276.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

McLEODUSA INCORPORATED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Six months ended June 30,	
	2004	2003
Revenues	$ 385.5	$ 448.5
Operating expenses:		
Cost of service (exclusive of depreciation and amortization shown separately below)	212.9	265.5
Selling, general and administrative	144.2	155.2
Depreciation and amortization	178.6	167.3
Restructuring adjustment	(0.2)	—
Total operating expenses	535.5	588.0
Operating loss	(150.0)	(139.5)
Nonoperating expense:		
Interest expense, net of amounts capitalized	(22.8)	(17.0)
Other expense	(0.9)	(0.4)
Total nonoperating expense	(23.7)	(17.4)
Net loss	(173.7)	(156.9)
Preferred stock dividend	(1.6)	(2.4)
Net loss applicable to common shares	$ (175.3)	$ (159.3)
Basic and diluted loss per common share	$ (0.60)	$ (0.58)
Weighted average common shares outstanding	291.6	276.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

McLeodUSA®

FOR IMMEDIATE RELEASE

McLeodUSA Reports Second Quarter 2004 Results

- ***Continued strong operational performance in the second quarter***
- ***Significantly reduced ongoing quarterly cash requirements***
- ***Launched Voice-over-Internet-Protocol (VoIP) trial in Chicago, Dallas, Denver and Detroit***

CEDAR RAPIDS, Iowa – July 28, 2004 – McLeodUSA Incorporated (Nasdaq: MCLD), one of the nation's largest independent, competitive telecommunications services providers, today reported financial and operating results for the quarter ended June 30, 2004.

Total revenues for the quarter were $191.9 million and gross margin[1] was $86.6 million. SG&A expenses for the quarter were $68.5 million. Adjusted EBITDA[1] for the period was $18.1 million, resulting in the ninth consecutive quarter of positive Adjusted EBITDA. Reported net loss for the quarter was $(82.2) million, or a loss per common share of $(0.28).

"In the second quarter, the Company continued to meet or exceed all operational goals achieving 92% customer satisfaction, 99.7% billing accuracy and 99.999% network reliability ratings. In addition, we significantly reduced our ongoing quarterly cash requirements through the execution of our plans to reduce SG&A, tightly manage capital expenditures and sell available fiber assets," said Chris A. Davis, Chairman and Chief Executive Officer. "While total revenues declined in the quarter, retail sales productivity per rep increased approximately 40 percent. This marked improvement was a direct result of our implementation of a more rigorous sales process in the first quarter and the performance based actions we took in April. Also, this quarter we began to see results from our strategic sales strategy as our strategic sales team closed eleven contracts that we had bid over the last several months. Our wholesale sales team had another strong quarter, successfully selling long distance service and exceeding their sales objective by nearly 25%. Going forward, we continue to believe that the significant investment we have made to be a facilities-based communications company gives us a unique opportunity to sell local wholesale services within our 25-state footprint."

The Company remains focused on revenue growth and sales force productivity. It expects to continue to realize the benefits of its improvement initiatives, as well as, the growth opportunity in its wholesale business in the second half of 2004. However, the benefits of these initiatives will be offset in the third quarter by the final phase of the federally mandated reduction in access rates, which is expected to negatively impact revenues and gross margin by approximately $8 million.

On July 6th, the Company proposed principles to the FCC in support of continued competition in residential and business local phone service. The proposed principles include an orderly transition from UNE-P to UNE-L and continued access to unbundled network elements necessary to provide UNE-L, including access to high capacity (DS1/DS3) loops and transport under fair contract terms and stable pricing (TELRIC). In addition, the Company has held meetings with Chairman Powell and the FCC commissioners to discuss this agenda and obtain concurrence that these principles will be included in any interim or permanent rules issued by the FCC. Based on these discussions the Company believes that the interim rules, which are expected to be issued in the next few weeks, will support true facilities-based competition.

For the quarter ended June 30, 2004, total revenues were $191.9 million compared to $193.6 million in the first quarter of 2004 and $222.6 million in the second quarter of 2003. Revenue for the quarter included approximately $6 million of favorable benefit from ongoing rate settlements related to prior period billings. Gross margin for the second quarter of 2004 was $86.6 million compared to $86.0 million in the first quarter of 2004 and $94.5 million in the second quarter of 2003. Gross margin increased slightly from the first quarter of 2004 as the impact of lower local and long distance revenue was offset by the above mentioned rate settlement. Gross margin as a percentage of revenue for the second quarter was 45.1% compared to 44.4% in the first quarter of 2004 and 42.4% in the second quarter of 2003 as a result of more cost effective network operations.

Private line and data revenue per customer increased 2% and 20% compared to the first quarter of 2004 and the second quarter of 2003, respectively. Long distance revenue per customer declined by 5% from the first quarter of 2004 and 18% from the second quarter of 2003 as the Company reduced the cost of service and offered substantially more competitive pricing. Local service revenue per customer, excluding the above mentioned rate settlement, was essentially flat compared to the first quarter of 2004 and declined by approximately 6% as compared to the second quarter of 2003 as a result of the Company's planned increased usage of its lower cost, more competitively priced and more profitable UNE-L platform.

The Company's excellent operational performance continued in the second quarter of 2004. The customer satisfaction rating remained in excess of 90%, billing accuracy was 99.7% and the Company continued to consistently achieve 99.999% network reliability, all in line with Company goals.

Customer platform mix at the end of the second quarter was 69% UNE-L, 4% resale and 27% UNE-M/P versus 67%, 5% and 28%, respectively, at the end of the first quarter of 2004 and 58%, 7% and 35%, respectively, at the end of the second quarter of 2003 as the Company continued to migrate UNE-P customers to UNE-L and sell the more profitable UNE-L platform. Business customer line turnover was 2.2% in the second quarter of 2004 compared to 1.9% in the first quarter of 2004 and 2.2% in the second quarter of 2003. Total customer line turnover in the second quarter was 2.5% versus 2.3% and 2.4% in the first quarter of 2004 and second quarter of 2003, respectively.

For the second quarter of 2004, SG&A was $68.5 million versus $75.7 million in the first quarter of 2004 and $73.5 million in the second quarter of 2003. Included in the second quarter 2004 SG&A is a benefit of approximately $3.6 million related to a reduction in bad debt reserves resulting from improved performance on receivables collections. In addition, as previously reported, the second quarter 2003 SG&A of $73.5 million included a one-time WorldCom receivable recovery of $7.9

million. Excluding the above benefits, SG&A expenses were approximately $72.1 million in the second quarter of 2004 compared to $81.4 million in the second quarter of 2003. The year-over-year reduction of SG&A expenses reflects the Company's ongoing process improvement programs as well as specific actions taken during the quarter to reduce non-essential expenses. Adjusted EBITDA in the second quarter of 2004 was $18.1 million compared to $10.3 million in the first quarter of 2004 and $21.0 million in the second quarter of 2003. Net loss for the second quarter of 2004 was $(82.2) million compared to $(91.4) million in the first quarter of 2004 and $(72.8) million in the second quarter of 2003.

Total revenues for the six months ended June 30, 2004 were $385.5 million versus $448.5 million in the comparable 2003 period. Gross margin for the six-month period ending June 30, 2004 was $172.6 million versus $183.0 million in 2003. Gross margin as a percent of revenue for the six-month period was 44.8% versus 40.8% in 2003. Total SG&A expenses for the six-month period were $144.2 million and $155.2 million in the 2004 and 2003 periods, respectively. Adjusted EBITDA was $28.4 million for the six-month 2004 period versus $27.8 million in 2003.

As discussed in last quarter's earnings release and conference call, the Company has taken additional steps to conserve cash and improve liquidity while continuing to focus on its revenue growth plan. All identified actions were completed, which are expected to result in approximately $8 million of savings to the quarterly SG&A run-rate by the fourth quarter of 2004. Capital expenditures for the second quarter were $14 million in line with the Company's revised plan to spend approximately $50-55 million in 2004 versus its initial plan of $65 million. The revised capital expenditure plan for the year remains dedicated to new product introduction, cost savings programs and strategic growth initiatives. In addition, the Company completed approximately $5 million of fiber sales in the second quarter. These combined actions resulted in a cash usage of approximately $18 million in the second quarter, down significantly from the average usage of about $33 million of cash in the past several quarters.

The Company ended the quarter with $31.2 million of cash on hand excluding approximately $7.0 million of rate settlement payments received in early July. The Company has met all current financial covenants and continues to have full access to the $110 million exit credit facility. As of June 30, 2004 there was $35.0 million of cash available from the exit facility. As planned, the Company made its third quarter withdrawal of $15.0 million from the exit credit facility. Going forward the Company expects to continue to realize the benefits of the cash management actions implemented in the second quarter and the execution of its plan to sell $50 million of fiber in 2004.

Other recent highlights include:

- On July 27, 2004, the Company announced the addition of Preferred Advantage[SM] Hosted Exchange and Shared Web Hosting for business customers. With the addition of these new services the Company will provide businesses with the capabilities of a fully managed messaging and data communications solution at a lower cost of ownership.

- On July 26, 2004, the Company announced it has begun the market trial for its next generation Voice-over-Internet Protocol (VoIP) switching architecture and is now providing Preferred Advantage[SM] Dynamic Integrated Access service to selected trial business customers in the Denver, Dallas, Detroit and Chicago markets.

- On July 21, 2004, the Company announced it is now offering Preferred Advantage^{SM} Managed Services for Dedicated Internet Access to its business customers. The service provides a totally managed outsourced Internet service which combines Dedicated Internet Access network services from McLeodUSA with industry-leading customer premises equipment and network management software.

- On July 21, 2004, the Company announced it is now offering new flexible Preferred Advantage^{SM} Local Voice packages for residential and business customers, which allows customers to bundle services and obtain the flexibility to customize their communications solutions.

- On July 6, 2004, McLeodUSA and AT&T announced that we have reached a long-term agreement in principle whereby AT&T would begin an orderly transition of lines off the Bells' UNE-P platform in selected states and onto McLeodUSA's UNE-L facilities-based network. Finalization of the agreement requires regulatory clarity in support of facilities-based competition.

- On May 10, 2004, the Company announced the expansion of its Preferred Advantage^{SM} DSL services to include home/office networking and wireless service and selected Netopia to provide the associated hardware to support the new product.

Conference Call

McLeodUSA will host a conference call on Wednesday, July 28, 2004, at 10 a.m. Eastern Time to discuss second quarter results and the information contained in this release. The call may be accessed at 888-271-9098 (U.S.) or 706-634-6027 (International). A replay will be available approximately 2 hours after completion of the call at 800-642-1687 (U.S.) or 706-645-9291 (International), Conference ID No. 8790375. The audio replay will be available through midnight ET on Wednesday, August 4, 2004. The call will also be Webcast live and available via replay at:
http://www.mcleodusa.com/InvestorRelations/StreamingMedia.do

About McLeodUSA

McLeodUSA provides integrated communications services, including local services, in 25 Midwest, Southwest, Northwest and Rocky Mountain states. The Company is a facilities-based telecommunications provider with, as of June 30, 2004, 38 ATM switches, 39 voice switches, 696 collocations, 435 DSLAMs and 2,510 employees. As of April 16, 2002, Forstmann Little & Co. became a 58% shareholder in the Company. Visit the Company's Web site at www.mcleodusa.com

[1]Non–GAAP Financial Measures

To provide further clarification, the Company has begun using the term Adjusted EBITDA as a replacement for EBITDA. Adjusted EBITDA is a non-GAAP financial measure used by management to evaluate the effectiveness of the Company's operating performance and to enhance the comparability between periods. EBITDA is an acronym for earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA, as defined by McLeodUSA, further removes the effects of other income and expense and restructuring adjustments. Management removes the effects of other income and expense and restructuring adjustments from Adjusted EBITDA because it does not believe that such items are representative of the core operating results of the Company's ongoing competitive telecommunications activities. For a facilities-based telecommunications services provider like McLeodUSA with high initial capital investments required in order to gain entry to the industry, management believes that omitting depreciation and amortization from Adjusted EBITDA provides a relevant and useful measure of the Company's core operating performance and enhances comparability between periods. Management believes that non-GAAP measures such as Adjusted EBITDA are commonly reported and used by analysts, investors and other interested parties in the telecommunications industry. Adjusted EBITDA is reconciled to net loss, the most comparable GAAP measure, within the table presented below. McLeodUSA's use of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies in the telecommunications industry. The use of Adjusted EBITDA is not intended to replace measures of financial performance reported in accordance with accounting principles generally accepted in the United States.

(In millions)	Three months ended June 30, 2004	 March 31, 2004	 June 30, 2003
Reconciliation of Adjusted EBITDA:			
Net loss	$ (82.2)	$ (91.4)	$ (72.8)
Interest expense	11.6	11.1	8.3
Other nonoperating expense (income)	0.5	0.4	0.4
Restructuring adjustment	(0.2)	-	-
Depreciation and amortization	88.4	90.2	85.1
Adjusted EBITDA	**$ 18.1**	**$ 10.3**	**$ 21.0**

(In millions)	Six months ended June 30, 2004	 June 30, 2003
Reconciliation of Adjusted EBITDA:		
Net loss	$ (173.7)	$ (156.9)
Interest expense	22.8	17.0
Other nonoperating expense (income)	0.9	0.4
Restructuring adjustment	(0.2)	-
Depreciation and amortization	178.6	167.3
Adjusted EBITDA	**$ 28.4**	**$ 27.8**

Gross margin is another financial measure that management uses to evaluate operating performance. Gross margin, which is calculated as revenues less cost of service, excludes depreciation and amortization expenses. Cost of service includes expenses directly associated with providing telecommunications services to its customers. Costs classified as cost of service include, among other items, the cost of connecting customers to the McLeodUSA network via leased facilities, the costs paid to third party providers for interconnect access and transport services, the costs of leasing components of network facilities and the cost of fiber related to sales and leases of network facilities. Gross margin is reconciled to net loss, the most comparable GAAP measure, within the table presented below.

(In millions)	Three months ended June 30, 2004	 March 31, 2004	 June 30, 2003
Reconciliation of Gross Margin:			
Net loss	$ (82.2)	$ (91.4)	$ (72.8)
Interest expense	11.6	11.1	8.3
Other nonoperating expense (income)	0.5	0.4	0.4
Restructuring adjustment	(0.2)	-	-
Depreciation and amortization	88.4	90.2	85.1
Selling, general and administrative	68.5	75.7	73.5
Gross Margin	**$ 86.6**	**$ 86.0**	**$ 94.5**

(In millions)	Six months ended June 30, 2004	Six months ended June 30, 2003
Reconciliation of Gross Margin:		
Net loss	$ (173.7)	$ (156.9)
Interest expense	22.8	17.0
Other nonoperating expense (income)	0.9	0.4
Restructuring adjustment	(0.2)	-
Depreciation and amortization	178.6	167.3
Selling, general and administrative	144.2	155.2
Gross Margin	**$ 172.6**	**$ 183.0**

Some of the statements in this press release include statements about our future expectations. Statements that are not historical facts are "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. Such statements may include projections of financial and operational results and goals, including revenue, EBITDA, Adjusted EBITDA, profitability, savings and cash. In some cases, you can identify these so-called "forward-looking statements" by our use of words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "intend" or "potential" or the negative of those words and other comparable words. These forward-looking statements are subject to known as well as unknown risks and uncertainties that may cause actual results to differ materially from our expectations. Our expectations are based on various factors and assumptions and reflect only our predictions. Factors that could cause actual results to differ materially from the forward-looking statement include technological, regulatory, public policy or other developments in our industry, availability and adequacy of capital resources, current and future economic conditions, the existence of strategic alliances, our ability to generate cash, our ability to implement process and network improvements, our ability to attract and retain customers, our ability to migrate traffic to appropriate platforms and changes in the competitive climate in which we operate. These and other risks are described in more detail in our most recent Annual Report on Form 10-K filed with the SEC. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

Contact:

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Mcleodusa_ir@mcleodusa.com

McLeodUSA Incorporated and Subsidiaries

Condensed Consolidated Statements of Operations

(In millions, except per share data)

(UNAUDITED)

	Three months ended	
	June 30, 2004	June 30, 2003
Revenue	$ 191.9	$ 222.6
Operating expenses:		
Cost of service (exclusive of depreciation and amortization shown separately below)	105.3	128.1
Selling, general and administrative	68.5	73.5
Depreciation and amortization	88.4	85.1
Restructuring adjustment	(0.2)	-
Total operating expenses	262.0	286.7
Operating loss	(70.1)	(64.1)
Nonoperating income (expense):		
Interest expense, net of amounts capitalized	(11.6)	(8.3)
Other expense	(0.5)	(0.4)
Total nonoperating expense	(12.1)	(8.7)
Net loss	$ (82.2)	$ (72.8)
Preferred stock dividend	(0.8)	(1.2)
Net loss applicable to common shares	$ (83.0)	$ (74.0)
Basic and diluted loss per common share	$ (0.28)	$ (0.27)
Weighted average common shares outstanding	292.2	276.9

McLeodUSA Incorporated and Subsidiaries

Condensed Consolidated Statements of Operations

(In millions, except per share data)

(UNAUDITED)

	Six months ended	
	June 30, 2004	**June 30, 2003**
Revenue	$ 385.5	$ 448.5
Operating expenses:		
Cost of service (exclusive of depreciation and amortization shown separately below)	212.9	265.5
Selling, general and administrative	144.2	155.2
Depreciation and amortization	178.6	167.3
Restructuring adjustment	(0.2)	-
Total operating expenses	535.5	588.0
Operating loss	(150.0)	(139.5)
Nonoperating income (expense):		
Interest expense, net of amounts capitalized	(22.8)	(17.0)
Other expense	(0.9)	(0.4)
Total nonoperating expense	(23.7)	(17.4)
Net loss	$ (173.7)	$ (156.9)
Preferred stock dividend	(1.6)	(2.4)
Net loss applicable to common shares	$ (175.3)	$ (159.3)
Basic and diluted loss per common share	$ (0.60)	$ (0.58)
Weighted average common shares outstanding	291.6	276.6

McLeodUSA Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets

(In millions)

	June 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 31.2	$ 56.5
Trade receivables, net	68.0	65.6
Prepaid expense and other	22.5	22.4
Assets held for sale	2.0	2.0
Total Current Assets	123.7	146.5
Non-current Assets		
Property and equipment, net	884.1	1,007.7
Goodwill and other intangibles, net	428.2	446.9
Other non-current assets	25.3	29.5
Total Non-current Assets	1,337.6	1,484.1
Total Assets	$ 1,461.3	$ 1,630.6
LIABILITIES AND EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 31.3	$ 27.1
Accounts payable	39.0	30.5
Deferred revenue, current portion	6.2	6.9
Other current liabilities	101.6	121.5
Liabilities related to discontinued operations	0.3	1.1
Total Current Liabilities	178.4	187.1
Long-term Liabilities		
Long-term debt, excluding current maturities	726.7	717.3
Deferred revenue less current portion	17.0	15.1
Other long-term liabilities	60.0	58.3
Total Long-term Liabilities	803.7	790.7
Redeemable Convertible Preferred Stock	121.7	131.1
Stockholders' Equity	357.5	521.7
Total Liabilities and Equity	$ 1,461.3	$ 1,630.6

McLeodUSA Incorporated and Subsidiaries
Selected Telecommunications Statistical Data

	6/30/03	3/31/04	6/30/04
Active central offices	1,722	1,708	1,692
Collocations	584	667	696
Switches owned			
CO / LD	45	40	39
ATM / Frame Relay	38	38	38
DSLAMs installed	435	435	435
Total Competitive:			
Customers	414,767	381,791	369,282
Access Units / Customer	2.7	2.8	2.8
Revenue per Customer / Month			
Local	$ 112.10	$ 106.55	$ 111.97*
Long distance	36.92	31.56	30.11
Private line & data	26.82	31.61	32.11
Total	$ 175.84	$ 169.72	$ 174.19
Platform Distribution			
Resale	7%	5%	4%
UNE-M/P	35%	28%	27%
UNE-L	58%	67%	69%
Total	100%	100%	100%

* Excluding second quarter rate settlement, local revenue per customer was $105.67

Pac-West

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-27743

PAC-WEST TELECOMM, INC.
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	**68-0383568** (I.R.S. Employer Identification No.)
1776 W. March Lane, Suite 250 **Stockton, California** (Address of principal executive offices)	**95207** (Zip Code)

(209) 926-3300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of July 30, 2004, the Company had an aggregate of 36,678,106 shares of common stock issued and outstanding.

PAC-WEST TELECOMM, INC.

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited in thousands except per share data)

	Three Months Ended June 30,				Six Months Ended June 30,			
		2004		2003		2004		2003
Revenues	$	27,837	$	45,723	$	57,260	$	76,238
Costs and Expenses:								
Network expenses		11,148		7,005		21,640		17,703
Selling, general and administrative		14,299		14,251		28,530		29,455
Depreciation and amortization		8,130		10,184		17,215		24,050
Restructuring charges		379		125		379		125
Total operating expenses		33,956		31,565		67,764		71,333
(Loss) income from operations		(6,119)		14,158		(10,504)		4,905
Interest expense, net		2,998		3,402		5,779		6,392
Other (income) expense, net		(12)		8		(16)		17
(Loss) income before income taxes		(9,105)		10,748		(16,267)		(1,504)
Income tax expense (benefit)		-		1,577		3		(351)
Net (loss) income	$	(9,105)	$	9,171	$	(16,270)	$	(1,153)
Basic and diluted (loss) income per share	$	(0.25)	$	0.25	$	(0.44)	$	(0.03)
Basic weighted average shares outstanding		36,632		36,451		36,620		36,450
Diluted weighted average shares outstanding		36,632		36,773		36,620		36,450
Comprehensive (loss) income:								
Net (loss) income	$	(9,105)	$	9,171	$	(16,270)	$	(1,153)
Other comprehensive (loss) income		(120)		48		(120)		(44)
Comprehensive (loss) income	$	(9,225)	$	9,219	$	(16,390)	$	(1,197)

See notes to unaudited condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, this report contains forward-looking statements, subject to uncertainties and risks. In this Quarterly Report on Form 10-Q, our use of the words "outlook," "expect," "anticipate," "estimate," "forecast," "project," "likely," "objective," "plan," "designed," "goal," "target," and similar expressions is intended to identify forward-looking statements. While these statements represent our current judgment on what the future may hold, and we believe these judgments are reasonable, actual results may differ materially due to numerous important risk factors that are described in our Annual Report on Form 10-K for the period ended December 31, 2003, as filed with the SEC on March 30, 2004, which may be revised or supplemented in subsequent reports filed by us with the SEC. Such risk factors include, but are not limited to: our substantial indebtedness; an inability to generate sufficient cash to service our indebtedness; regulatory and legal uncertainty with respect to intercarrier compensation payments received by us; the declining rate at which intercarrier compensation payments are determined; the inability to expand our business as a result of the unavailability of funds to do so; adverse affects on our operations as a result of covenants in agreements related to our borrowings; the loss of key executive officers could negatively impact our business prospects; the possible delisting of our common shares from the Nasdaq SmallCap Market; and our principal competitors for local services and potential additional competitors have advantages that may adversely affect our ability to compete with them.

Introduction

We are a high-value, independent broadband provider of integrated communications services within our target markets. Our customers include Internet service providers and enhanced communications service providers, collectively referred to as service providers, or SPs, and the business enterprise market (enterprise), many of which are communications-intensive users.

We built our facilities-based network to capitalize on the significant growth in Internet usage and in the related demand for local telephone service by SPs, as well as the increasing demand of enterprises for customized and integrated voice and data communications services. We believe the statewide footprint of our network, which encompasses all of the major metropolitan areas of California, provides us with a competitive advantage over incumbent local exchange carriers (ILECs), and other competitive local exchange carriers (CLECs), particularly for SPs. Our ubiquitous network in California enables SPs to provide their business and residential customers with access to Internet, paging and other data and voice services from almost any point in the state through a local call. We believe the breadth of our product offerings and the structure of our network enable us to generate high network utilization and strong gross profit margins.

The following table shows our financial performance for the three and six months ended June 30, 2004 and 2003 (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 (unaudited)	2003 (unaudited)	2004 (unaudited)	2003 (unaudited)
Financial performance:				
Revenues	$ 27,837	$ 45,723	$ 57,260	$ 76,238
Net (loss) income	$ (9,105)	$ 9,171	$ (16,270)	$ (1,153)
Basic and diluted net (loss) income per share	$ (0.25)	$ 0.25	$ (0.44)	$ (0.03)

Earnings before interest, net, income taxes, depreciation and amortization (EBITDA) for the quarters ended June 30, 2004 and 2003 was $2.0 million and $24.3 million, respectively. EBITDA for the six months ended June 30, 2004 and 2003 was $6.7 million and $28.9 million, respectively. Although EBITDA is not a measure of financial performance under generally accepted accounting principles, we believe EBITDA is a common measure used by analysts and investors to evaluate our capacity to meet our obligations. We also use EBITDA as an internal measurement tool and accordingly, we believe that the presentation of EBITDA provides useful and relevant information. The tables below reconcile EBITDA to net cash provided by operating activities for the three and six months ended June 30, 2004 and 2003 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
EBITDA	$ 2,023	$ 24,334	$ 6,727	$ 28,938
Change in operating assets and liabilities	3,339	(10,710)	1,369	(14,537)
Interest expense, net	(2,998)	(3,402)	(5,779)	(6,392)
Allowance for doubtful accounts receivable	16	(98)	64	(87)
Amortization of deferred stock compensation	49	-	95	-
Net cash provided by operating activities	$ 2,429	$ 10,124	$ 2,476	$ 7,922

We derive our revenues from monthly recurring charges, usage charges and amortization of initial non-recurring charges. We provide services to both retail and wholesale customers. Monthly recurring charges include the fees paid by customers for lines in service and additional features on those lines, as well as equipment collocation services. Usage charges consist of fees paid by end users for each call made, fees paid by our customers as intercarrier compensation for completion of their customers' calls through our network, and access charges paid by carriers for long distance traffic terminated on our network. Initial non-recurring charges consist of fees paid by end users for the installation of our service. These payments and related costs up to the amount of revenues are recognized as revenue and expense ratably over the term of the service contracts, which is generally 24 to 36 months. We recognize revenue when there is persuasive evidence of an arrangement, delivery of the product or performance of the service has occurred, the selling price is fixed or determinable and collectibility is reasonably assured.

We have carrier customers, including ILECs, who pay us to terminate calls originated from their retail customer base to phone numbers on our network. These payments consist of "intercarrier compensation" for local calls, transit traffic and other intercarrier compensation payments, as well as "switched access" payments for termination of long distance calls. Intercarrier compensation payments we receive are a function of the number of calls we terminate, the minutes of use associated with such calls and the rates we are compensated at by the other carriers. Intercarrier compensation payments have historically been a significant portion of our revenues. In particular, intercarrier compensation payments accounted for 26.0%, and 43.6% of our total revenues for the six months ended June 30, 2004 and 2003, respectively. As a result, the failure, for any reason, of one or more ILECs from which we ordinarily receive intercarrier compensation payments to make all or a significant portion of such payments would adversely affect our financial results.

Our right to receive intercarrier compensation payments from ILECs, as well as the right of other CLECs to receive such payments is the subject of numerous regulatory and legal proceedings. For example, in 2003, Verizon and SBC claimed to have adopted the Federal Communications Commission's (FCC) Intercarrier ISP Compensation Order. The FCC ISP Order introduced a series of declining intercarrier compensation pricing tiers for certain locally-dialed minutes of use, at rates starting below the rates previously negotiated in our interconnection agreements (ICAs) with both carriers. The lowest pricing tier specified by the FCC ISP Order was reached on June 15, 2003, and will remain in effect until such time that a replacement FCC order may become effective. Additionally, the FCC ISP Order introduced annual growth limits on the number of compensable minutes of use subject to the FCC's plan, based on the historic locations and amounts of carrier traffic, as well as the composition and balance of current traffic between carriers. During the later months of 2003, Verizon and SBC withheld intercarrier compensation payments based on their interpretation of the growth cap formula in the FCC ISP Order. If the FCC ISP Order remains in effect, we expect that SBC and Verizon may also withhold intercarrier compensation payments in 2004 and beyond once we have exceeded their calculation of the growth cap. We do not believe that there will be any direct impact on us in the foreseeable future from a March 2004 U.S. Court of Appeals ruling overturning portions of an FCC Order relating to the telephone competition policy rules on UNE-P.

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Pac-West Telecomm Announces Second Quarter 2004 Results

	Three months ended		
($ millions)	**Jun. 30, 2004**	**Mar. 31, 2004**	**Jun. 30, 2003**
Total Revenues	$27.8	$29.4	$45.7
Net (Loss) Income	($9.1)	($7.2)	$9.2
(Loss) Income per Share Diluted	($0.25)	($0.20)	$0.25
Cash, Cash Equivalents and Short-Term Investments	$32.3	$32.0	$54.0
Minutes of Use (billions)	10.2	11.3	10.0
Total DS-0 Equivalent Lines in Service	415,737	407,394	403,751

- *Revenues decreased by 5.4% and net loss increased by 26.4% from previous quarter*
- *Total minutes of use decreased by 9.7% and total lines increased by 2.0% from the previous quarter*
- *Entered into secured financing agreement with Merrill Lynch Capital in which Pac-West may borrow up to $10.0 million for acquisition of assets.*

Stockton, CA – July 28, 2004 – Pac-West Telecomm, Inc. (Nasdaq: PACW), a provider of broadband communications services to service providers and enterprise customers in the western U.S., today announced its results for the quarter ended June 30, 2004.

Hank Carabelli, Pac-West's President and CEO, commented, "While our reported financial results for the quarter were not in line with our expectations, we continued to execute our strategy to build our foundation for renewed growth. These efforts are focused on two key areas: growing our customer base through expanded coverage and products, and evolving our network for greater efficiencies and attracting new types of business.

In the first half of 2004, we greatly increased the addressable market for enterprise customers on our facilities-based network, expanding the number of customers to which we are able to cost-effectively offer our services. We also expanded our product suite, introducing new products that support IP-PBXs and facilitate high-speed data between customer sites.

In the second half of 2004, we anticipate further expansion of the markets we serve as well as releasing additional services that enable ISPs and other carriers to provide broadband and bundled voice services to end-users in California. Specifically, we will be introducing a new service, which enables other communications providers access to our infrastructure as an alternative to the incumbent networks, or building and managing their own infrastructures. We are optimistic that our investment in this offering has the potential to enhance revenue in future periods.

We continue to transition our network to a packet switched network to increase efficiencies and attract these new types of business. In the first half of 2004, we upgraded our managed dial access network to a VoIP enabled platform, made substantial progress towards the preparation of our facilities and the design of the database supporting our next-generation Tekelec switch, and continued to scale our VoIPpro offering to accommodate the needs of a growing audience of enterprise IP customers. We are encouraged by the early results of these efforts, and anticipate increasing traction on our growth plans throughout the year."

Ravi Brar, Pac-West's CFO, added, "Second quarter revenues were lower than revenues in the first quarter of 2004 primarily due to lower minutes of use. In particular, we experienced lower minutes of use in April and May, with June returning to expected levels. In addition, revenues were lower than the same quarter a year ago mainly because revenues in the second quarter of 2003 included a combined $10.0 million for cash received for services in prior periods from both SBC California and Verizon Communications, and a lower rate per minute in the second quarter of 2004 under the terms of the Federal Communications Commission (FCC) ISP Order.

During the second quarter, Pac-West entered into a $10.0 million secured financing arrangement with Merrill Lynch Capital. We intend to use the funds to upgrade our network and increase capacity as we continue to improve the fundamentals of our business. Subsequent to the second quarter, Pac-West entered into a Settlement Agreement in which SBC California agreed to pay Pac-West $4.8 million to resolve various disputes."

Revenues

Pac-West's total revenues for the second quarter of 2004 decreased 5.4% to $27.8 million from revenues of $29.4 million in the first quarter of 2004. This decrease was principally caused by lower intercarrier compensation following lower minutes of use. Revenues for the second quarter of 2004 decreased 39.2% from revenues of $45.7 million in the second quarter of 2003. This was mainly because the second quarter of 2003 included a combined $10.0 million in revenues for cash received for services in prior periods from both SBC California and Verizon Communications. The Company also received lower revenues per minute of use in 2004 as required by a FCC order. This order lowered the rate per minute from $.0010 to $.0007, or 30%, the Company receives for intercarrier compensation, which went into effect during June 2003. This June 2003 rate decrease was the final of three rate reductions contemplated by the order.

Expenses

Network expenses increased 5.7% to $11.1 million in the second quarter of 2004 from $10.5 million in the first quarter of 2004. This increase was mainly because the Company recognized increased transport costs under a California Public Utilities Commission ruling that went into effect during February 2004. Network expenses increased 58.6% from $7.0 million in the second quarter of 2003. This was mainly because network expenses for the second quarter of 2003 included $4.1 million in negotiated supplier credits.

Selling, general and administrative expenses were relatively constant at $14.3 million in the second quarter of 2004, $14.2 million in the first quarter of 2004 and $14.3 million in the second quarter of 2003.

Net Loss

Net loss for the second quarter of 2004 increased 26.4% to $9.1 million from net loss of $7.2 million for the first quarter of 2004, whereas net income was $9.2 million for the second quarter of 2003. These movements were principally due to reduced revenues and higher network expenses as discussed above.

EBITDA

EBITDA (earnings before interest, net, income taxes, depreciation and amortization) for the second quarter of 2004 decreased 57.4% to $2.0 million from EBITDA of $4.7 million for the first quarter of 2004. This decrease was principally due to reduced revenues and higher network expenses as discussed above. Although EBITDA is not a measure of financial performance under generally accepted accounting principles, the Company believes EBITDA is a common measure used by analysts and investors to evaluate its capacity to meet its obligations. Management also uses EBITDA as an internal measurement tool and accordingly, believes that the presentation of EBITDA provides useful and relevant information. EBITDA for the second quarter of 2004 decreased 91.8% to $2.0 million from EBITDA of $24.3 million for the second quarter of 2003. This decrease was principally due to reduced revenues and higher network expenses as discussed above. The reconciliation of EBITDA to operating cash flow for the periods presented is:

	Three months ended		
($ millions)	**Jun. 30, 2004**	**Mar. 31, 2004**	**Jun. 30, 2003**
EBITDA	$2.0	$4.7	$24.3
Changes in operating assets and liabilities	3.4	(1.9)	(10.8)
Interest expense, net	(3.0)	(2.8)	(3.4)
Amortization of deferred stock compensation	0.1	-	-
Operating cash flow	$2.5	$0.0	$10.1

Liquidity

As of June 30, 2004, the Company's cash, cash equivalents and short-term investments increased to $32.3 million from $32.0 million at March 31, 2004. During the second quarter of 2004, Pac-West entered into a secured financing arrangement with Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services, Inc., pursuant to which Pac-West may borrow up to an aggregate amount of $10.0 million, subject to certain conditions. This financing arrangement is structured in a manner that provides for multiple credit facilities up to an aggregate of $10.0 million with each facility having separate closing dates and repayment schedules. Pac-West has used, and intends to continue to use, the proceeds of this financing arrangement to acquire new telecommunication switch and related equipment, which secure borrowings under this financing arrangement. As of June 30, 2004, Pac-West had borrowed approximately $2.4 million under this financing arrangement.

Minutes of Use, Customer Line Retention, and Lines in Service

Total minutes of use decreased 9.7% to 10.2 billion in the second quarter of 2004 from 11.3 billion in the first quarter of 2004. The Company believes this decrease was primarily due to lower call volume and duration from Internet service provider customers in April and May of 2004, with June returning to expected levels. Total minutes of use increased 2.0% from 10.0 billion in the second quarter of 2003.

Annualized enterprise customer line retention in the second quarter of 2004 was 91.0%, compared to 92.3% in the first quarter of 2004 and 91.9% in the second quarter of 2003. Annualized SP customer line retention in the second quarter of 2004 was 87.5%, compared to 87.3% in the first quarter of 2004 and 92.0% in the second quarter of 2003.

As Pac-West customers continue to move more towards usage-based rather than line-based services, we anticipate that minutes of use will become a more relevant operational metric than lines in service. Total DS-0 equivalent lines in service, which include enterprise and SP on-network DS-0 line equivalents, increased 2.0% to 415,737 at June 30, 2004 from 407,394 lines at March 31, 2004, and increased 3.0% on a year-over-year basis from 403,751 lines at June 30, 2003.

SP equivalent lines were relatively constant at 346,660 lines at June 30, 2004, 340,765 lines at March 31, 2004, and 342,952 lines at June 30, 2003.

Enterprise on-network DS-0 equivalent lines increased 3.7% to 69,077 at June 30, 2004 from 66,629 lines at March 31, 2004, and increased 13.6% on a year-over-year basis from 60,799 lines at June 30, 2003.

Investor Call

Management is holding an investor conference call on Thursday, July 29, 2004 at 8:30 a.m. PT/11:30 a.m. ET to discuss the quarterly results. Investors are invited to participate by dialing 1-888-291-0829 or 706-679-7923. A live webcast will be available on Pac-West's website at www.pacwest.com/investor. A replay will be available through August 12, 2004 by dialing 1-800-642-1687 or 706-645-9291 (ID# 8530412), or on Pac-West's website.

Supplemental Financial and Operational Data

Additional supplemental financial and operational data can be accessed in a summary that is posted on Pac-West's website at www.pacwest.com/investor/supplemental. Pac-West's filings with the SEC are also available online at www.pacwest.com/investor.

About Pac-West Telecomm, Inc.

Founded in 1980 and first incorporated in 1981, Pac-West Telecomm, Inc. has been offering telephone service to its customers since 1982. Pac-West is currently one of the largest competitive local exchange carriers headquartered in California. Pac-West's network averages over 120 million minutes of voice and data traffic per day, and carries an estimated 20% of the dial-up Internet traffic in California. In addition to California, Pac-West has operations in Nevada, Washington, Arizona, and Oregon. For more information, please visit Pac-West's website at www.pacwest.com.

Forward-Looking Statements

In this press release, our use of the words "outlook," "expect," "anticipate," "estimate," "forecast," "project," "likely," "objective," "plan," "designed," "goal," "target," and similar expressions is intended to identify forward-looking statements. While these statements represent our current judgment on what the future may hold, and we believe these judgments are reasonable, actual results may differ materially due to numerous important risk factors that are described in our Annual Report on Form 10-K for the period ended December 31, 2003, as filed with the SEC on March 30, 2004, which may be revised or supplemented in subsequent reports filed by us with the SEC.

Such risk factors include, but are not limited to: our substantial indebtedness; an inability to generate sufficient cash to service our indebtedness; regulatory and legal uncertainty with respect to intercarrier compensation payments received by us; the declining rate at which intercarrier compensation payments are determined; the inability to expand our business as a result of the unavailability of funds to do so; adverse affects on our operations as a result of covenants in agreements related to our borrowings; the loss of key executive officers could negatively impact our business prospects; the possible delisting of our common shares from the Nasdaq SmallCap Market; and our principal competitors for local services and potential additional competitors have advantages that may adversely affect our ability to compete with them.

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Pac-West Telecomm, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited in thousands except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Revenues	$ 27,837	$ 45,723	$ 57,260	$ 76,238
Costs and expenses				
Network expenses	11,148	7,005	21,640	17,703
Selling, general and administrative	14,299	14,251	28,530	29,455
Depreciation and amortization	8,130	10,184	17,215	24,050
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Total operating expenses	33,956	31,565	67,764	71,333
(Loss) income from operations	(6,119)	14,158	(10,504)	4,905
Interest expense, net	2,998	3,402	5,779	6,392
Other (income) expense	(12)	8	(16)	17
(Loss) income before income taxes	(9,105)	10,748	(16,267)	(1,504)
Income tax expense (benefit)	-	1,577	3	(351)
Net (loss) income	$ (9,105)	$ 9,171	$ (16,270)	$ (1,153)
Basic weighted average number of shares outstanding	36,632	36,451	36,620	36,450
Diluted weighted average number of shares outstanding	36,632	36,773	36,620	36,450
Basic and diluted net (loss) income per share	$ (0.25)	$ 0.25	$ (0.44)	$ (0.03)

CONDENSED CONSOLIDATED BALANCE SHEETS

($ thousands)	June 30, 2004 (unaudited)	Dec. 31, 2003
Cash, cash equivalents and short-term investments	$ 32,307	$ 34,657
Trade accounts receivable, net	9,508	7,713
Prepaid expenses and other current assets	4,308	4,576
Deferred tax assets	-	3,467
Total current assets	46,123	50,413
Property and equipment, net	110,422	121,211
Deferred financing costs, net	1,404	1,635
Other assets, net	2,324	943
Total assets	$ 160,273	$ 174,202
Accounts payable and accrued liabilities	$ 10,878	$ 11,133
Other current liabilities	12,004	11,957
Total current liabilities	22,882	23,090
Long-term debt	60,005	54,523
Capital lease payable	871	191
Deferred revenue	400	467
Deferred income taxes	-	3,467
Total liabilities	84,158	81,738
Stockholders' equity	76,115	92,464
Total liabilities and stockholders' equity	$ 160,273	$ 174,202

Certain prior period amounts have been reclassified to conform to current period presentations.

TelePacific

About TelePacific

Press Releases

For Release: Immediately
Date: 7/28/2004
Contact: Rebecca Levin,
Phone: 213-213-3622

TelePacific Communications Posts Positive EBIDTA in Second Quarter of 2004

Los Angeles, California, 7/28/2004 - TelePacific Communications, a leading provider of business telecommunications solutions providing local, long distance, data and Internet services to businesses in California and Nevada, today reported that it generated positive earnings before interest, taxes, depreciation and amortization (EBITDA) in the second quarter of 2004.

The company also highlighted the following other operational developments:

- Exited April 2004 with more than 200,000 lines in service;
- Received a $12 million equity investment in April from Investcorp, the company's largest shareholder;
- Launched its new data product suite capitalizing on its MPLS IP backbone;
- Added more than 57,700 new lines in service since January 2004; and
- Grew revenue 66% and line count 72% in 2003.

"TelePacific achieved the positive milestone by remaining focused on the basics: serving customers, meeting the objectives of our business plan, driving revenue and containing costs," said Dick Jalkut, president and CEO of TelePacific Communications. "We are well positioned to build on our substantial client base."

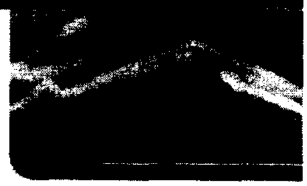
TelePacific continues to add new customers at record rates and maintains a retention rate greater than 99%, a reflection of the company's commitment to provide an exceptional customer experience.

While TelePacific already has established a strong competitive position, we will continue to seek ways to build on our success in serving customers better than any other provider in our markets," said Jalkut.

About TelePacific Communications

TelePacific Communications is a leading provider of business telecommunications network solutions providing local, long-distance, data and Internet services to businesses in California and Nevada. With thousands of customers, TelePacific is one of the largest telecommunications companies headquartered in California. With local consultants, service, support, and facilities, TelePacific offers solutions, provisions services and provides customer service where its customers do business. For more information, visit www.telepacific.com.

<< back



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